



COMMONWEALTH of VIRGINIA

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August 24, 2011

Mr. Glen Tittermary, Director
Joint Legislative Audit and Review Commission
Suite 1100
General Assembly Building
Richmond, VA 23219

Dear Mr. Tittermary:

Pursuant to Mr. Leone's letter of July 12, 2010 and recent conversations with JLARC staff, this letter is submitted to JLARC staff by VITA as notification of the following changes in VITA surcharges effective September 1, 2011:

1. The surcharge to recover VITA's recurring operational costs will be lowered from 8.65% to 8.48%.
2. The surcharge to allow for debt repayment will be lowered from 2.31% to 2.09%. (This rate is set to expire on June 30, 2014.)

The 5.43% surcharge for pass-thru processing will remain the same, as the costs for this activity have not appreciably changed.

VITA also plans to discontinue five LAN rates, as described below and noted in the spreadsheet documenting this request.

Additional Information

For the first time in five years, VITA reported positive net income. We are pleased to report this relatively stable year (FY 2011) has started VITA back on a path to fiscal soundness. In general, revenues were higher than anticipated. Not only did FY 2011 VITA internal service fund (ISF) revenue increase by \$47 million over FY 2010 (for total FY 2011 revenue of \$304 million), but revenues throughout FY 2011 continued to climb. Since rates remained steady during that time period, the growth during FY 2011 is entirely attributable to increased usage.

The projection of FY 2012 revenues thus includes two components: increased usage and contractual changes. VITA projects FY 2012 revenues to increase by \$11.9 million (\$8.7 million based on increased usage and an additional \$3.2 million based on contractual changes). Both components are depicted in the table below. It is important to note that no portion of this projected growth is due to any increase in VITA overhead expenses.

The contractual changes are discussed in the next section.

FY 2011 VITA Revenue	FY 2012 Initial Projections without any rate changes *	FY 2012 Projections with proposed rate changes *
\$304.0 M	\$312.7 M	\$315.9 M

* Based on Agency usage as of July, 2011

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Contractual Changes

Customer bills are expected to increase \$3.2 million annually due to several modifications to the Commonwealth's contract with Northrop Grumman. The largest single factor of the net increase is this year's Northrop Grumman contractual Cost of Living Adjustment of ~\$800,000.

Other notable factors include adjustments reflecting Amendment 68 to the Northrop Grumman contract, executed on June 28, 2011, that related to storage consolidation and modifications to the fixed price adjustment fee. Additional items in Amendment 68 include moving from charges for Local Area Network service tiers to a set of five per device charges, changes in the way VITA is billed when services move between tiers of service, and a refresh of the adjusted baseline inventory that better accounts for infrastructure assets and recognizes and captures the increased accuracy of the asset inventory shown over the past twelve months.

Revised Rates

This increased demand for IT services, along with the various contractually required amendments described above, make it necessary for VITA to revise its rates. Accordingly, effective September 1, 2011 two of VITA's three surcharges will be lowered and 293 of VITA's 329 total rates will be modified. (VITA is working closely with Northrop Grumman to obtain updated cost information for the mainframe environment, therefore at this time all 10 mainframe related rates will remain unchanged.) The projected annual customer impact is approximately 1% (\$3.2 million).

As with the current rate structure, the majority of the Commonwealth's IT expenses and VITA's proposed rates will continue to be driven by charges assessed by the Commonwealth's primary IT service provider, Northrop Grumman. With the exception of the Mainframe CPU rates, VITA's proposed rate structure will continue to align one-for-one with the resource-unit (RU) charging model in the Commonwealth's contract with Northrop Grumman.

We have attached our Proposed FY 2012 Commonwealth IT Rates spreadsheet for your review. As with last year's submission, the spreadsheet provides the make-up of each of the rates, along with a description of each service. Agency impacts are also included in the spreadsheet.

We welcome the opportunity to discuss this information with you and your staff. If you have any questions, please give me a call at (804) 416-6009.

Sincerely,



Dana Smith
Director, Finance and Administration

Attachments

cc: Jim Duffey, Secretary of Technology
Sam Nixon, CIO of the Commonwealth
Dan Timberlake, Director, Department of Planning and Budget